

ANNUAL FINANCIAL STATEMENTS

for

INGQUZA HILL LOCAL MUNICIPALITY

For the period ended 30 June 2018

Province: Eastern Cape

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INGQUZA HILL LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2018

General information

Municipal demarcation code: EC 153

Members of the Executive Council and Leadership

Councillor J P Mdingi	Mayor
Councillor N Capa	Speaker
Councillor M Tenyane	Chief Whip
Councillor S H Mtshazo	MPAC Chair
Councillor P Dutshwa	Members Interest Chair
Councillor Z Mhlongo	Public Participation & Petitions Committee Chair
Councillor B J Nkani	Women's Caucus Chair
Councillor M R Ziphathe	Member of the Executive Committee
Councillor V Gwegwe	Member of the Executive Committee
Councillor B B Goya	Member of the Executive Committee
Councillor T Jotile	Member of the Executive Committee
Councillor V Somani	Member of the Executive Committee
Councillor B Mvulani	Member of the Executive Committee
Councillor M M Mkumla	Member of the Executive Committee
Councillor N A Gagai	Member of the Executive Committee
Councillor S B Vatsha	Member of the Executive Committee

Municipal Manager

M Fihlani

Acting Chief Financial Officer

Z Sodladla

Grading of Local Authority

Grade 3 : Low Capacity

Auditors

Auditor-General(South Africa)

Bankers

First National Bank
Flagstaff Branch
6224175712 - Primary bank account

Lawyers

FT Tayi Incorporated
Ximbi Ncolo and Associates

INGQUZA HILL LOCAL MUNICIPALITY
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General information (continued)

Registered Office: 135 Main Street, Flagstaff

Physical addresses:
Flagstaff Office

135 Main Street
FLAGSTAFF
4810

Lusikisiki Office

66 Main Street
LUSIKISIKI
4820

Postal addresses:
Flagstaff Office

PO Box 14
FLAGSTAFF
4810

Lusikisiki Office

PO Box 7
LUSIKISIKI
4820

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INGQUZA HILL LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2018

Foreword

We are pleased to present this Financial Report that reflects our commitment to the principle of good governance and clean administration by Ingquza Hill Local Municipality's Council.

As a responsible local government sphere, we have worked hard during the period under review to execute the mandate given to us by the communities, we serve to advance their basic social needs and reduce the infrastructure development backlog that is faced by our country. This is our main business as the local sphere of South African Government in terms of Section 216 of the Constitution of the Republic of South Africa and other pieces of legislation governing local government.

As a developing local government institution, we place very high emphasis on total compliance with the legislation governing our administration.

We will continue to place great focus on empowering our public representatives to ensure a vigorous oversight and leadership role in the management of public funds.

We wish to thank the Council, its committees and our administration for their hard work in ensuring that Ingquza Hill Local Municipality, achieve positive results in respect of financial management.

Thank you

Councillor J P Mdingi
Mayor

Date

INGOUZA HILL LOCAL MUNICIPALITY



ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2018

Accounting Officer's Statement

I, Mluleki Fihlani, am responsible for the preparation of these annual financial statements, which are set out on pages 5 to 60, in terms of Section 126(1) of the Municipal Finance Management Act No 56 of 2003(MFMA) and which I have signed on behalf of the Municipality.

I also certify that the salaries, allowances and benefits of Councillors as disclosed in notes 19 and 36 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution Act No 108 of 1996 of the Republic of South Africa, read with the Remuneration of Public Office Bearers Act No 20 of 1998 and the Minister of Provincial and Local Government's determination in accordance with this Act.

M Fihlani
Municipal Manager

Flagstaff
at (place of signing)

Date

INGQUZA HILL LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
For the year ended 30 June 2018

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INGQUZA HILL LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE
For the year ended 30 June 2018

	Notes	2018 R	2017 R
REVENUE			
REVENUE FROM NON-EXCHANGE TRANSACTIONS			
TAXES			
Property rates	13	21 541 089	21 367 983
TRANSFERS AND FINES			
Government grants and subsidies	15	286 015 240	262 043 361
Fines		2 243 200	1 314 500
Interest earned - outstanding receivables	43	-	1 216 193
REVENUE FROM EXCHANGE TRANSACTIONS			
Service charges - refuse	14	1 134 823	1 119 231
Rental of facilities		11 918	11 661
Interest earned - external investments	43.2	7 815 521	7 952 902
Interest earned - outstanding receivables	43	-	681 555
Lease rentals		847 207	769 891
Other income	16	11 207 441	3 682 192
Total Revenue		330 816 438	300 159 470
EXPENDITURE			
Employee related costs	18	111 197 854	91 910 835
Remuneration of Councillors	19	21 599 936	18 984 403
Repairs and maintenance	31	7 829 820	17 644 111
Impairment of debtors	35	-	5 580 825
Impairment expense	41	61 644	4 632 032
Interest paid	20	468 056	387 912
Investment property fair value adjustment		45 715 070	-
Loss on sale of sites		1 710 572	-
General expenses	23	59 778 109	73 939 452
Depreciation	8	41 784 674	35 700 974
Total Expenditure		290 145 733	248 780 544
Gain on fair value adjustment	21	-	-
Loss on sale of assets	42	-	-
SURPLUS FOR THE YEAR		40 670 705	51 378 926

INGQUZA HILL LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

	Notes	2018 R	Restated balances 2017 R
NET ASSETS AND LIABILITIES			
Net assets		1 107 421 586	1 075 462 176
Accumulated surplus	1	1 107 421 586	1 075 462 176
Non-current liabilities		11 750 208	11 443 618
Long term loan - DBSA	2	6 825 840	6 825 840
Long service awards	2	4 924 368	4 617 778
Current liabilities		46 928 209	37 252 111
Provisions	3	8 886 487	8 824 360
Current portion of finance lease liability	39	-	195 320
Current portion of long service awards	9.1	1 302 694	1 302 694
Trade and other payables from exchange transactions	4	30 486 079	23 167 072
Unspent conditional grants and receipts	5	6 137 950	3 647 794
Sundry payables	4	114 998	114 871
Total Net Assets and Liabilities		1 166 100 002	1 124 157 905
ASSETS			
Non-current assets		1 003 047 056	994 320 073
Property, plant and equipment	8	602 471 024	548 514 550
Investment property	10	394 101 560	439 816 630
Investment held as a collateral	6	6 474 472	5 988 893
Current assets		163 052 945	129 837 832
Consumer receivables from non-exchange transactions	11	13 320 032	12 747 725
Sundry receivables from exchange transactions	11	8 888 433	16 752 337
VAT receivable	12	42 081 844	25 689 786
Inventory	26	18 891 464	23 088 938
Cash and cash equivalents	7	79 871 173	51 559 046
Total Assets		1 166 100 002	1 124 157 905

INGQUZA HILL LOCAL MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS
For the year ended 30 June 2018

	Accumulated Surplus	Total
Notes		
<u>2017</u>	R	R
Balance at 1 July 2016	1 021 151 422	1 021 151 422
Revaluation surplus	-	-
Change in accounting policy	-	-
Balance at 1 July 2017	1 021 151 422	1 021 151 422
Correction of errors 32	3 071 927	3 071 927
Surplus for the year	51 378 925	51 378 925
Current adjustments	-	-
Revaluation increase	-	-
Balance at 30 June 2017	1 075 602 274	1 075 602 274
<u>2018</u>		
Balance at 1 July 2017	1 075 602 274	1 075 602 274
Revaluation surplus	-	-
Change in accounting policy	-	-
Opening balance as previously reported	1 075 602 274	1 075 602 274
Correction of errors 32	(8 851 393)	(8 851 393)
Opening balance restated	1 066 750 881	1 066 750 881
Surplus for the year	40 670 705	40 670 705
Current adjustments	-	-
Revaluation increase	-	-
Balance at 30 June 2018	1 107 421 586	1 107 421 586

INGQUZA HILL LOCAL MUNICIPALITY
CASH FLOW STATEMENT

For the year ended 30 June 2018

	Notes	2018 R	2017 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts		330 816 438	300 159 468
Property rates		21 541 089	21 367 983
Sales of goods and services		4 237 148	5 113 030
Grants	15	286 015 240	262 043 361
Interest received		7 815 522	7 952 903
Other receipts		11 207 441	3 682 192
Payments		255 687 010	252 182 053
Employee costs		131 696 727	109 794 175
Suppliers		123 522 227	141 999 966
Interest paid		468 056	387 912
Other payments/movements		-	-
Net cash flows from operating activities	29	<u>75 129 428</u>	<u>47 977 415</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets (PPE)	8.2	(93 562 044)	(68 831 378)
Investment property fair value adjustment		45 715 070	-
Loss on sale of sites		1 710 572	-
Investment held as a collateral	6	(485 579)	(449 161)
Net cash flows from investing activities		<u>(46 621 980)</u>	<u>(69 280 538)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Finance lease (payments)/receipts	39	(195 320)	(291 552)
Net cash flows from financing activities		<u>(195 320)</u>	<u>(291 552)</u>
Net increase /(decrease) in net cash and cash equivalents		28 312 127	(21 594 675)
Net cash and cash equivalents at beginning of period		51 559 046	73 153 721
Net cash and cash equivalents at end of period	7	<u><u>79 871 173</u></u>	<u><u>51 559 046</u></u>

INGQUZA HILL LOCAL MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
As at 30 June 2018

Description	Actual 2018	Approved Budget 2018	Adjustments	Final Budget 2018	Variance	Management comments
	R	R	R	R	R	
Revenue						
Rates and taxes	21 541 089	29 627 679	9	29 627 688	27%	N/A
Fees, fines, penalties & licences	5 641 303	6 631 680	(2 241 794)	4 389 886	-29%	Most of the line items here are demand driven from the clients and the negative of the current market
Revenue from exchange transactions	6 411 365	29 599 542	(18 537 330)	11 062 212	42%	Most of the line items here are demand driven from the clients and the negative of the current market
Transfers from other governments	286 015 240	283 644 000	-	283 644 000	-1%	N/A
Other operating income	11 207 441	29 825 797	29 542 941	59 368 738	81%	Most of the line items here are demand driven from the clients and the negative of the current market
Total revenue	330 816 438	379 328 698	8 763 826	388 092 524	15%	
Expenses						
Personnel	132 797 790	147 830 200	(11 567 536)	136 262 664	3%	Some budgeted benefits are not yet realised by the employees and these are some vacant positions
General expenditure	17 981 746.83	76 159 456	91 009	76 250 466	76%	N/A
Capital expenditure	89 740 014	144 013 235	(136 806 990)	7 206 245	-1145%	Expenditure is transferred to assets capitalised, refer to Note 8.2 on additions to PPE
Repairs and maintenance	7 829 820	11 325 805	157 047 340	168 373 145	95%	Repairs and maintenance per clusters started late because of the rainy season
Finance costs	11 688	15 000	(15 000)		#DIV/0!	N/A
Total expenditure	248 361 059	379 343 696	8 748 824	388 092 520	36%	
Un-adjustment surplus for the year	82 455 379					

Surplus for the year 51 378 925

	33 721 005
Depreciation	41 784 674
Gain of fair value adjustment	-
Impairment expense	4 632 032
Impairment of debtors	5 580 825
Other current year movement	(18 809 106)
Finance costs	(11 688)
HR provisions	544 268
	85 099 930

NB: all the movements between the approved budget and the final budget are a consequence of reallocations within the budget

NB: Management comments are in respect of variances that are 10% and above. The adjustments are the movements within the approved budget by the Council.

INGQUZA HILL LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
For the year ended 30 June 2018

1. BASIS OF ACCOUNTING

1.1 Basis of presentation

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives, issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003). The Municipality has also made use of the approved but not yet effective standards to compile these accounting policies which are also a part of this list. The standards are summarised as follows:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statement
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing costs
GRAP 6	Consolidated and separate financial statements
GRAP 7	Investments in Associates
GRAP 8	Interests in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial reporting in hyperinflationary economies
GRAP 11	Construction contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 16	Investment property
GRAP 17	Property, Plant and Equipment
GRAP 18	Segment reporting
GRAP 19	Provisions, Contingent Liabilities and Contingent Asset
GRAP 21	Impairment of non cash generating assets
GRAP 23	Revenue from non exchange transactions
GRAP 24	Presentation of budget information in financial statements
GRAP 25	Employee benefits
GRAP 26	Impairment of cash generating assets
GRAP 27	Agriculture
GRAP 31	Intangible assets
GRAP 100	Discontinued operations
GRAP 103	Heritage assets
GRAP 104	Financial instruments
GRAP 105	Transfer of functions between entities under common control
GRAP 106	Transfer of functions between entities not under common control
GRAP 107	Mergers

The following are the standards that are approved but not yet effective, no effective date has been determined

GRAP 20	Related party disclosures
GRAP 32	Service concession arrangements:Grantor
GRAP 34	Separate Financial Statements
GRAP 35	Consolidated Financial Statements
GRAP 36	Investments in associates and joint ventures
GRAP 37	Joint arrangements
GRAP 32	Service concession arrangements:Grantor
GRAP 38	Disclosure of interest in other entities
GRAP 108	Statutory receivables
GRAP 109	Accounting by principals and agents
GRAP 110	Living and non-living resources

The effective date for the below standard is 1 April 2019

IGRAP 18	Recognition and decognition of land
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The impact of the above standards: the Municipality already has the accounting policy for the above standards and is already complying with the requirements of these accounting standards.

Exemptions from these standards as they relate to the interim arrangements on the implementation of GRAP are detailed under each relevant accounting policy note following as they apply to the Municipality.

INGQUZA HILL LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
For the year ended 30 June 2018

1. BASIS OF ACCOUNTING(continued)

1.2 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the Municipality. All figures have been rounded off to the nearest one Rand.

1.3 Going concern assumption

These annual financial statements have been prepared on the assumption that the Municipality will continue to operate as a going concern for at least the next 12 months.

1.4 Comparative information

Budget Information

Budget information prepared in accordance with GRAP 1 and GRAP 24 has been provided to these financial statements and forms part of the Annual Financial Statements. The budget information is prepared on the same basis as the Annual Financial Statements for the year ended 30 June 2017.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy or adoption of accounting standard in the current year, the adjustment is made retrospectively as far practicable and the prior year comparatives are restated accordingly.

1.5 Accounting policies, changes in accounting estimates and errors

The Municipality is fully complying with all the relevant GRAP standards.

INGQUZA HILL LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

2. RESERVES

2.1 Government Grants Reserve

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus or deficit to the Government Grants Reserve equal to the Government Grant recorded as revenue in the Statement of Financial Performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated a transfer is made from the Government Grant to the accumulated surplus or deficit. The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of Government Grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus or deficit.

When an item of property, plant and equipment is disposed, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus or deficit.

2.2 Revaluation Reserve

The surplus/deficit arising from the revaluation of land and buildings is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are derecognised, through a transfer from the revaluation reserve to the accumulated surplus or deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus or deficit while gains or losses on disposal based on revalued amounts, are credited or charged to the Statement of Financial Performance.

3. PROPERTY, PLANT AND EQUIPMENT

3.1 Initial Recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used for more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price or construction costs and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the Municipality for no cost or nominal consideration (i.e. a non-exchange transaction), its cost is its fair value as at the date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the Municipality expects to use them for more than one year. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

The work in progress for infrastructure is initially measured at cost, and capitalised to an asset once the asset is completed.

INGQUZA HILL LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

3. PROPERTY, PLANT AND EQUIPMENT (Continued)

3.2 Subsequent measurement - cost model (Property, Plant & Equipment)

Subsequent to initial recognition, land and buildings are carried at revalued amount, being their fair value less any subsequent accumulated depreciation and impairment losses.

An increase in the carrying amount of an asset as a result of a revaluation is credited directly to a revaluation surplus reserve, except to the extent that it reverses an accumulated decrease of the same asset previously recognised in surplus or deficit.

A decrease in the carrying amount of an asset as a result of a revaluation is recognised in surplus or deficit, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Where the Municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

3.3 Depreciation and impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The assets are depreciated as follows:

Infrastructure	
Access roads	20 years
Community assets	
Graveyard	10 - 50 years
Other	
Landfill site	10 years
Furniture	7 - 10 years
Mobile office	10 -15 years
Fire arms	10 years
Plant and equipment	5 -15 years
Motor vehicles	5 - 7 years
Tools	3 - 5 years
Computer equipment	3 - 10 years
Buildings	50 years

The residual value, the useful life of an asset and the depreciation method are reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The Municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

3.4 Derecognition

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset and/or when it is transferred to other organ of state (funder). The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

4. INVESTMENT PROPERTY

4.1 Initial recognition

Investment property includes property (land or a building, or part of a building, or both) held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the Municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

Where an investment property is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at the provisional amount.

4.2 Subsequent measurement - fair value model

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value which is determined annually with any changes to the fair value recognised in surplus or deficit.

INGQUZA HILL LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

4. INVESTMENT PROPERTY (Cont.)

4.3 Derecognition

Items of investment property are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of an investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

5. TRADE AND OTHER RECEIVABLES

Trade and other receivables are categorised as financial assets at amortised cost and are initially recognised at fair value, plus transaction costs and subsequently carried at amortised cost using the effective interest rate method, less provision for impairment. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial recognition, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable may be impaired (expected future cash flows to their present value using the effective interest rate at initial recognition). Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current asset given up

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

6. TRADE PAYABLES AND BORROWINGS

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value, net transaction costs and subsequently measured at amortised cost using the effective interest rate method which is the initial carrying amount, less repayment, plus interest.

7. CASH AND CASH EQUIVALENTS

7.1 Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held with banks, net of bank overdrafts. The Municipality categorises cash and cash equivalents as financial assets at amortised cost and are initially recognised at the fair value, plus transaction costs and subsequently carried at amortised cost using the effective interest rate method.

Bank overdrafts are recorded based on the facility utilised. Finance charges on the bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities at amortised cost, are initially recognised at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest rate method.

7.2 Investments

Investments, which include [listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks] are categorised as financial instruments at amortised cost and are subsequently measured at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

8. INVENTORIES

8.1 Initial recognition

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the Municipality for no or nominal consideration (i.e non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

8.2 Subsequent Measurement

Inventories, consisting of land held for sale and stationery, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

In general, the basis of allocating cost to inventory items is the first-in, first-out method.

9. FINANCIAL INSTRUMENTS (continued)

The Municipality has various types of financial instruments and these can be broadly categorised as either financial assets or financial liabilities.

9.1 Financial Assets - Classification and Measurement

A financial asset is any asset that is cash or a contractual right to receive cash or another financial asset. The Municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereof:

- a) Investment in fixed deposits (Banking Institutions, etc)
- b) Investment held as a collateral
- c) Consumer receivables from non-exchange transactions
- d) Sundry receivables from exchange transactions
- e) Cash and cash equivalents

INGQUZA HILL LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

9. FINANCIAL INSTRUMENTS (continued)

9.1 Financial assets - classification and measurement at amortised cost (continued)

Type of financial assets	Classification in terms of GRAP 104
Short term investment deposits - call	Financial asset at amortised cost
Cash and cash equivalents	Financial asset at amortised cost
Long term receivables	Financial asset at amortised cost
Receivables from non exchange transactions	Financial asset at amortised cost
Sundry receivables from exchange transactions	Financial asset at amortised cost
Investment held as a collateral	Financial asset at amortised cost

Financial assets at fair value are financial assets that meet either of the following conditions:

- They are classified as held for trading; or
- Upon initial recognition they are designated as a fair value through the Statement of Financial Performance.

Held to maturity investments are financial assets with fixed or determinable payments and fixed maturity where the Municipality has the positive intent and ability to hold the investment maturity.

Financial assets at amortised costs are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non current assets. Loans and receivables are recognised initially at cost which represents fair value. After initial recognition, financial assets are subject to impairment. Financial assets at amortised cost are initially recognised at fair value plus transaction cost and subsequently carried at amortised cost, less provision for impairment.

9.2 Financial liabilities - Classification and Measurement

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The Municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereof:

- a) Long term liabilities
- b) Trade and payables from exchange and non-exchange transactions
- c) Bank overdraft
- d) Short term loans
- e) Current portion of long term liabilities
- f) Finance lease liability

There are two main categories of financial liabilities, the classification based on how they are measured. Financial liabilities may be measured :

- (i) At fair value or
- (ii) Financial liabilities at amortised costs

9. FINANCIAL INSTRUMENTS

9.2 Financial liabilities - Classification and measurement (continued)

Financial liabilities that are measured at fair value are financial liabilities that are essentially held for trading i.e. Purchase with the intention to sell or repurchase in the short term, derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short term profiteering or are resulted gain or loss recognised in the Statement of Financial Performance.

Any other financial liabilities are classified as financial liabilities at amortised cost and are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

9.3 Initial and Subsequent Measurement

9.3.1 Financial Assets

Held-to-maturity investments and loans and receivables are initially measured at fair value plus transactions costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Financial assets at fair value and available for sale are initially and subsequently, at the end of each financial year, measured at fair value with the surplus or deficit being recognised in the Statement of Financial Performance.

9.3.2 Financial liabilities

Financial liabilities at fair value are subsequently measured at fair value and other financial liabilities are measured at amortised cost using the effective interest rates method.

9.3.3 Impairment of Financial Assets

Financial assets at amortised cost other than those at fair value are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence of impairment of financial assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence, the recoverable amount is estimated and an impairment loss is recognised.

Initially trade receivables are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debts based on past default experience of all outstanding amounts at year end. Bad debts are written off the year in which they are identified as irrecoverable.

A provision for impairment of trade receivables is established when there is objective evidence that the Municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

9. FINANCIAL INSTRUMENTS (continued)

9.3.3 Impairment of Financial Assets (continued)

With the exception of financial assets at cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of Financial Performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of financial assets at cost, impairment losses previously recognised through surplus or deficit are not reversed through the Statement of Financial Performance. Any increase in fair value subsequent to an impairment loss is recognised directly in net assets.

Consumer and sundry receivables are stated at cost less a provision for impairment. The provision is made in accordance with GRAP 104 whereby the recoverability of consumer and sundry receivables is assessed individually and then collectively after grouping the assets in financial assets with similar credit risks characteristics. Government accounts are not provided because such accounts are regarded as receivable.

9.3.4 Derecognition of Financial Assets

The Municipality derecognises financial assets only when the contractual rights to the cash flows from the assets expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when the Council approves the write-off of financial assets due to non-recoverability.

If the Municipality neither transfers nor retains substantially all the risks and rewards of the ownership and continues to control the transferred asset, the Municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the Municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

9.3.5 Derecognition of Financial Liabilities

The Municipality derecognises financial liabilities when the Municipality's obligations are discharged, cancelled or they expire.

10. RISK MANAGEMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

It is the policy of the Municipality to disclose information that enables the user of its financial statements to evaluate the nature and extent of risks arising from financial instrument to which the Municipality is exposed on the reporting date.

Risks and exposure are disclosed as follows:

10.1 Credit Risk

- Each class of financial instrument is disclosed separately.
- Maximum exposure to credit risk not covered by collateral is specified.
- Financial instruments covered by collateral are specified.

10.2 Liquidity Risk

- Liquidity risk is managed by ensuring that all financial assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.
- A maturity analysis for financial liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in the financial statements.

11. PROVISIONS

Provisions are recognised when the Municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate of the provision can be made. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (this for example applies in the case of obligations for the rehabilitation of the landfill site).

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where an inflow of economic benefits or service potential is highly probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of the provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating deficits. The present obligation under an onerous contract is recognised and measured as a provision.

12. LEASES

12.1 Municipality as lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the payments which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to impairment of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the definition of finance leases. Operating leases are accrued and accounted for on a straight-line basis over the term of the relevant lease, this is on the basis of the cash flows in the lease agreement.

12.2 Municipality as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Any outstanding amount is recognised as an asset in the Statement of Financial Position

13. CONDITIONAL GRANTS AND RECEIPTS

Revenue from conditional grants, donations and funding are recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

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14. REVENUE

14.1 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the Municipality directly in return for services rendered/goods sold, the value of which approximates the consideration received or receivable.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passed to the consumer.

Revenue arising out of situations where the Municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the Municipality as compensation for executing the agreed services.

14.2 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the Municipality received revenue from another entity or person without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis.

Fines constitute both spot fines and summons. Revenue from spot fines and summons are recognised when they are legally due to the Municipality, revenue is impaired when the probability of collecting is remote and/or when a fine is reduced or written off by the Magistrate

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

14.2 Revenue from non-exchange transactions(continued)

Revenue from public contributions and donations is recognised when all the conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualify for recognition and first become available for use by the Municipality. Where public contributions have been received but the Municipality has not met the related conditions, a deferred income (liability) is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and becomes available for use by the Municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

15. GRANTS, TRANSFERS AND DONATIONS

Grants, transfers and donations received are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

16. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, Municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act. Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance.

17. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act no. 56 of 2003, the Municipal Systems Act of 2000, the Public Office Bearers Act (20 of 1998) or is in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure is accounted for as an expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

18. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

19. RELATED PARTIES

Individuals as well as their close family members, and/or Municipality are related parties if one party has the ability, directly or indirectly to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Management is regarded as the related party and comprises the councillors and audit committee members.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

20 BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The Municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

21 EMPLOYEE BENEFITS

21.1 Post Employment Benefits

The Municipality operates a defined contribution plan in the form of a provident fund scheme covering employees. The assets of the scheme are held separately from those of the Municipality and are administered by the scheme's trustees. Contributions to the defined contribution retirement benefit plan are recognised as an expense when employees have rendered service entitling them to the contributions.

21.2 Short Term Employee Benefits

Short term employee benefits encompasses all those benefits that become payable in the short term, i.e. within a financial year or within 12 months after the financial year. Therefore, short term employee benefits include remuneration, compensated absences, bonuses and short term portion of Long Service Award.

Short term employee benefits are recognised in the Statement of Financial Performance as services are rendered, except for non-accumulating benefits, which are recognised when the specific event occurs. These short term employee benefits are measured at their undiscounted costs in the period the employee renders the related service or the specific event occurs.

21.3 Long term employee benefits

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities. Actuarial gains and losses on the long-term service awards are recognised in the statement of financial performance.

The amount recognised as a liability for long-term service awards is the net total of the following amounts:
the present value of the defined obligation at the reporting date,
minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality recognises the net total of the following amounts as expense or revenue, except to the extent that another standard requires or permits their inclusion in the cost of an asset:

- current service cost,
- interest cost,
- the expected return on any plan assets and on any reimbursement right recognised as an asset,
- actuarial gains and losses, which is recognised immediately,
- past service cost, which is recognised immediately, and
- the effect of any curtailments or settlements.

22 EVENTS AFTER THE REPORTING DATE

The Municipality considers events that occur after the reporting date for inclusion in the annual financial statements. Events that occur after the reporting date (30 June 2017) and the date on which the audit of the financial statements is completed (30 November 2017) are considered for inclusion in the annual financial statements.

23 IMPAIRMENT OF ASSETS

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. Where the carrying amount of an asset exceeds its recoverable amount (or recoverable service amount in the case of non-cash-generating assets), the asset is considered impaired and is written down to its recoverable amount (or recoverable service amount).

An asset's recoverable amount (or recoverable service amount) is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value-in-use. This recoverable amount (or recoverable service amount) is determined for individual assets, unless those individual assets are part of a larger cash generating unit, in which case the recoverable amount (or recoverable service amount) is determined for the whole cash generating unit.

23.1 Impairment of cash generating assets

An asset is part of a cash generating unit where that asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

For cash generating assets the value in use is determined as a function of the discounted future cash flows from the asset. In assessing value-in-use for cash-generating assets, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, other fair value indicators are used.

23.2 Impairment of non cash generating assets

Where the asset is a non-cash generating asset the value in use is determined through depreciated replacement cost, restoration cost approach or service units approach. The decision to the approach to use is dependent on the nature of the identified impairment.

Impairment losses of continuing operations are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

Reversal of an impairment loss of an asset carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

24 INTANGIBLE ASSETS

Identifiable non-monetary assets without physical substance are classified and recognised as intangible assets. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years. Development assets are tested for impairment annually, in accordance with GRAP.

Intangible assets are initially recognised at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost. Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses. The cost of an intangible asset acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the is recognised immediately, past service cost, which is recognised immediately, and the effect of any curtailments or settlements.en up.

Subsequent Measurement, Amortisation and Impairment

After initial recognition, an intangible asset are carried at its cost less any accumulated amortisation and any accumulated impairment losses.

Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date.

In terms of GRAP 31, intangible assets are distinguished between internally generated intangible assets and other intangible assets. It is further distinguished between indefinite or finite useful lives. Amortisation is charged on a straight-line basis over the intangible assets' useful lives (when the intangible asset is available for use), which are estimated to be between 3 to 5 years, the residual value of assets with finite useful lives is zero, unless an active market exists. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, however such intangible assets are subject to an annual impairment test. The usefull lives per category of intangible assets are detailed below:

Intangible asset useful lives:

- Software 3
- Website 5

Intangible assets are annually tested for impairment, including intangible assets not yet available for use. Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount.

25 PROVISIONS AND CONTINGENCIES

Contingent assets and contingent liabilities are not recognised.

A provision is recognised when the economic entity has a present obligation (legal or constructive) as a result of a past event and it is probable (ie more likely than not) that

an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The economic entity does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Provisions are reviewed annually and those estimated to be settled within the next twelve months are treated as current liabilities. All other provisions are treated as long term liabilities.

26 BUDGET INFORMATION

The economic entity are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by the entity provides information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2016 to 30/06/2017.

The budget for the economic entity includes all the entities approved budgets under its control.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

27 COMMITMENTS

The entity discloses each class of capital assets (PPE, investment properties, intangible assets and heritage assets) recognized in the financial statements as well as future minimum lease payments under non-cancellable operating leases for each of the following periods:

- Not later than one year,
- Later than one year and not later than five years; and
- Later than five years.

28 ACCUMULATED SURPLUS

The surplus/deficit that arises annually in the appropriate account must be accrued in the accumulated surplus / deficit of the Municipality.

The accounting officer must ensure that the funds in the accumulated surplus are atleast equal to the net current asset, minus cash and the short term portion of investments plus the bank overdraft.

All unfunded funds, reserves and provisions may be transferred to the accumulated surplus/ deficit of the municipality. If the funds in the accumulated surplus exceed the amount referred to above, the balance of the accumulated surplus may be transferred to the provision for bad debts.

If the municipality has a bank overdraft, the accounting officer must indicate how and when the overdraft will be redeemed and which funds will be employed for this purpose.

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
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Restated balances

		2018 R	2017 R
1	ACCUMMULATED SURPLUS		
	Opening balance	1 072 957 865	1 015 045 106
	Movements :	34 463 721	57 912 759
	Other retained income movements	-	-
	Revaluation Increase/fair value adjustment	-	-
	Closing balance	<u>1 107 421 586</u>	<u>1 072 957 865</u>

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INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
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Restated Balance

	2018 R	2017 R
2 LONG TERM LIABILITY		
Loan - Development Bank of Southern Africa(DBSA)	6 825 840	6 825 840
Interest accrued - DBSA- included in sundry creditors (note 4)	114 998	-
Total amount owed to DBSA as at 30 June 2018	<u>6 940 838</u>	<u>6 825 840</u>
Long Service Awards (LSA) (Short term portion Note 9.1)	4 924 368	4 617 778
	<u>11 865 206</u>	<u>11 443 618</u>

The DBSA external loan is repayable in 2019. The fixed interest rate is 6.75% per annum. One bullet payment at the end of term from proceedings of zero coupon bonds. The payment shall commence on the last day of half year during which the first disbursement was advanced to the Municipality. The loan is secured by the investment held with FNB-RMB (Rand Merchant Bank) which was ceded to the DBSA which is an investment on zero coupon bond and has the following details:

- Account number - 128331
- Type of account – RMB
- Value – R 6 474 472

The loan was used to acquire property, plant and equipment.

3

3.1 Bonus provision

Opening balance	8 100 525	1 652 703
Addition to unpaid bonuses	359 393	336 672

The uncertainty is the timing of the bonus payments. The accrual calculation is based on the thirteen cheque payable that falls due within the current year. The municipality has an obligation to pay a service bonus in terms of its condition of employment.

<u>8 459 918</u>	<u>1 989 375</u>
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3.2 Performance bonus

Opening balance	8 459 918	4 817 313
Addition to unpaid performance bonuses	(8 459 918)	1 653 230

This is a provision for performance bonuses due to all Section 57 managers. Its based on 14% of annual all inclusive salary as at 30 June 2017. The uncertainty is on the assessment by Evaluation Committee and approval by Council.

<u>-</u>	<u>6 470 543</u>
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3.3 Landfill sites

Opening balance	364 442	353 053
Addition of Flagstaff site to the provision and expenditure increase	62 127	11 389
Provision for the restoration of the landfill site. The Municipality received an approval by the Office of The Environment Affairs. The municipality has a landfill site where it will need to rehabilitate the land at the end of its useful life. The estimated cost at this time is per above. The assessment was done by a professional Assessor.	<u>426 569</u>	<u>364 442</u>

Total current provisions(Notes 3.1 + 3.2 + 3.3)	<u>8 886 487</u>	<u>8 824 360</u>
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INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

	2018 R	2017 R
4 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS		
Retentions with-held from contractors	16 504 142	11 276 413
Trade payables	6 158 129	2 895 106
Accrual for leave pay	7 907 499	7 383 786
Net salaries clearance	(831 139)	-
Credit card	-	55
Prepaid income	-	890 007
Other accruals	747 448	721 705
Balance at the end of the year	<u>30 486 079</u>	<u>23 167 072</u>
Sundry payables		
Interest on DBSA Loan (refer to note 2)	114 998	-
Petrol card	-	-
	<u>114 998</u>	<u>-</u>

The management of the Municipality is of the opinion that the carrying value of trade payables approximate their fair values.

The fair value of trade payables was determined after considering the standard terms and conditions of agreements entered into between the Municipality and other parties.

5 UNSPENT CONDITIONAL GRANTS AND RECEIPTS

Department of Energy (DOE) - Electrification	2 958 535	468 378
Local Economic Development (LED)	3 179 416	3 179 415
	<u>6 137 950</u>	<u>3 647 793</u>

See note 15 for reconciliation of grants from other spheres of government. These unspent conditional grants at year end are directly cash backed as required by the MFMA. At year end there were designated investment bank accounts supporting these unspent grants. However, all unspent conditional grants are classified as current liabilities, to be settled within next 12 months

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

	2018 R	2017 R
6 INVESTMENT HELD AS A COLATERAL		
Investment held as a colateral - FNB: RMB	6 474 472	5 988 893
NB: this is a financial asset - (see Note 2)		
7 CASH AND CASH EQUIVALENTS		
The Municipality has the following bank accounts:		
7.1 First National Bank - 6224175712 - Type of account: Current Account (Primary Bank Account)		
Bank statement balance at the beginning of the year	3 241 721	1 234 570
Bank statement balance at the end of the year	7 303 114	3 241 721
7.2 Current and call accounts		
FNB - 6224175712 - primary account	7 303 114	3 241 721
FNB - 12813351 - RMB call	-	-
FNB - 62003235307 - call account	25 663 091	19 476 981
FNB - 62219877836 - call account	205 749	198 673
FNB - 74233699310 - call account	24 346 761	22 826 100
FNB - 62231474537 - call account	4 546 046	129 049
FNB - 62231473761 - call account	17 806 376	5 686 487
Bank balances at the end of the year	79 871 137	51 559 011
Bank statement balance at the end of the year	79 871 137	51 559 011
7.3 Petty cash balance	35	35
Bank and cash balance(7.2 + 7.3)	79 871 173	51 559 046
Cash and cash equivalents	79 871 173	51 559 046

8.2 Analysis of property plant and equipment as at

	Cost					Accumulated Depreciation / Impairment						Carrying
30 June 2018	Opening Balance	Additions	Impairment	Transfer to Completed	Adjustments	Closing Balance	Opening Balance	Additions	Impairment	Disposals / Adjustments	Closing Balance	Value
	R	R	R	R	R	R	R	R	R	R	R	R
Land and Buildings												
Land and buildings	52 947 455	-	-	-	-	52 947 454	1 451 469	557 391	-	-	2 008 860	50 938 594
	52 947 455	-	-	-	-	52 947 454	1 451 469	557 391	-	-	2 008 860	50 938 594
Infrastructure												
Infrastructure - Work in Progress	77 865 204	94 534 681	-	(38 819 223)	512 000	134 093 826	-	-	-	-	-	134 093 826
Street lights	632 031	-	-	-	-	632 031	115 134	211 828	-	-	326 962	305 069
High Masts	425 208	8 212 553	-	-	-	8 637 761	239 825	808 135	-	-	1 047 960	7 589 801
Access Roads	470 186 847	29 632 215	-	-	185 259	500 004 321	140 271 642	62 621 847	-	70 049	202 963 538	297 040 783
	549 109 290	132 379 448	-	(38 819 223)	697 259	643 367 939	140 626 601	63 641 810	-	-	204 338 460	439 029 477
Community assets												
Graveyard	62 049	-	-	-	-	62 049	39 760	12 756	-	-	52 516	9 533
Sport field	12 973 113	-	-	-	-	12 973 112	1 533 108	1 296 403	-	-	2 829 601	10 143 511
Community Halls	39 185 341	3 663 203	-	-	-	42 848 544	2 501 652	3 372 342	-	-	5 873 994	36 974 550
Fencing	542 039	1 284 975	-	-	-	1 827 014	25 544	38 499	-	-	64 043	1 782 971
Wetlands Viewing Deck	308 222	-	-	-	-	308 222	38 657	172 557	-	-	211 214	97 008
Drivers Licence testing center	33 226 370	-	-	-	-	33 226 370	84 991	1 347 867	-	-	1 432 858	31 793 513
	86 297 134	4 948 178	-	-	-	91 245 312	4 223 712	6 240 514	-	-	10 464 226	80 781 086
Leased assets												
Printing Machine	1 161 943	-	-	-	-	1 161 943	925 773	185 423	-	-	1 111 196	50 747
Other assets												
Landfill site	336 212	-	-	-	-	336 212	281 471	39 976	-	-	321 447	14 766
Fire arms	102 905	-	-	-	-	102 905	27 327	18 625	598	-	45 952	56 953
Furniture and fittings	2 757 910	152 258	-	-	-	2 910 168	1 295 080	367 633	-	-	1 662 713	1 247 454
Plant and equipment	28 033 168	3 735 203	-	-	-	31 768 371	5 273 877	3 447 810	-	-	8 721 687	23 046 684
Motor vehicles	5 590 058	2 776 423	(195 488)	-	-	8 170 992	3 872 666	866 055	-	129 369	4 609 352	3 561 640
Mobile office	453 000	-	-	-	-	453 000	152 900	30 174	-	-	183 094	269 906
Tools, arms & mobile office	2 479 557	549 006	-	-	-	3 028 563	767 033	369 167	-	-	1 136 200	1 892 363
Computer equipment	2 225 318	912 737	(19 700)	-	-	3 118 355	1 148 087	332 052	59 346	(2 537)	1 537 002	1 581 354
	41 978 129	8 125 627	(215 188)	-	-	49 888 567	12 818 461	5 471 493	59 944	126 833	18 217 448	37 671 119
	731 493 950	145 453 254	(215 188)	(38 819 223)	697 259	838 611 214	160 046 016	76 096 631	59 944	126 833	236 140 190	602 471 024

NB: Details for the revaluation amounts are stated in note 10, there are no items of property, plant and equipment that were depreciated as security

NB: Details for the revaluation amounts are stated in note 10, there are no items of property, plant and equipment that are pledged as security

COMPUTER EQUIPMENT

30 June 2017	Cost				Revaluation	Transfer / Completed	Prior year Correction	Closing Balance	Opening Balance	Accumulated Depreciation				Carrying Value
	Opening Balance	Additions /								Additions	Disposals	Correction	Closing Balance	
	R	R	R	R						R	R	R	R	R
Land and Buildings														
Land and buildings	68 073 160	2 258 820	-		(17 384 525)	-	52 947 455	1 008 380	443 088	-	-	-	1 451 468	51 495 987
	68 073 160	2 258 820	-		(17 384 525)	-	52 947 455	1 008 380	443 088	-	-	-	1 451 468	51 495 987
Infrastructure														
Infrastructure - Work in Progress	89 199 225	-	-		(11 334 021)		77 865 204			-	-	-		77 865 204
Street lights	632 031						632 031	115 134	106 078	-	-	-	221 212	410 819
High Masts	425 208	8 212 553					8 637 761	239 825	5 253	-	-	-	245 078	8 392 683
Access Roads	434 952 648	35 234 199					470 186 847	140 271 642	29 563 961	-	-	-	169 835 603	300 351 244
	525 209 111	43 446 752	-		(11 334 021)	-	557 321 842	140 626 601	29 675 292	-	-	-	170 301 893	387 019 949
Community assets														
Graveyard	62 049						62 049	39 760	3 686	-	-	-	43 446	18 603
Sport field	7 311 400	5 661 713					12 973 113	800 417	732 691	-	-	-	1 533 108	11 440 005
Community Halls	37 335 540	1 949 801					39 185 341	2 501 652	1 583 532	-	-	-	4 085 184	35 100 157
Pound fencing	542 039						542 039	38 657		-	-	-	38 657	503 382
Wetlands Viewing Deck	308 222						308 222	25 544		-	-	-	25 544	282 678
Drivers Licence testing center	33 226 370						33 226 370	84 991		-	-	-	84 991	33 141 379
	44 708 989	41 588 145	-	-	-	-	86 297 134	3 341 829	2 469 101	-	-	-	5 810 930	80 486 204
Leased assets														
Printing Machine	1 161 943	-	-	-	-	-	1 161 943	617 279	308 494	-	-	-	925 773	236 170
Other assets														
Landfill site	336 212						336 212	241 292	40 179	-	-	-	281 471	54 741
Fire arms	102 905						102 905	9 312	18 015	-	-	-	27 327	75 578
Furniture and fittings	2 103 774	654 136					2 757 910	993 937	301 143	-	-	-	1 295 080	1 462 830
Plant and equipment	17 006 870	11 026 298 00	-	-	-	-	28 033 168	3 576 401	1 697 476	-	-	-	5 273 877	22 759 291
Motor vehicles	5 590 058						5 590 058	3 246 499	626 167	-	-	-	3 872 666	1 717 392
Mobile office	453 000						453 000	122 720	30 200	-	-	-	152 920	300 080
Tools, arms & mobile office	1 993 636	485 921	-				2 479 557	539 962	227 071	-	-	-	767 033	1 712 524
Computer equipment	2 004 875	227 966	(7 523)				2 225 318	1 056 773	96 256	(4 942)	-	-	1 148 087	1 077 232
	29 591 330	12 394 321	(7 523)	-	-	-	41 978 129	9 786 896	3 036 507	(4 942)	-	-	12 818 461	29 159 668
	668 744 534	99 688 038	(7 523)	(28 718 546)	-	-	739 706 503	155 380 985	35 932 482	(4 942)	-	-	191 308 525	548 397 978

NB: Details for the revaluation amounts are stated in note 10, there are no items of property, plant and equipment that are pledged as security

INGOUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

8 PROPERTY, PLANT AND EQUIPMENT
As at 30 June 2018

8.1 Reconciliation of Carrying Value

Description	Land and Buildings	Infrastructure	Community Assets	Capitalised Leased Assets - Machinery	Furniture and Fittings	Plant and Equipment	Motor Vehicles	Computer Equipment	Other Assets	Total
Carrying values at 1 July 2017	R 51 496 530	R 387 135 101	R 80 486 204	R 236 170	R 1 462 830	R 22 759 945	R 1 717 391	R 1 077 457	R 2 142 923	R 548 514 551
Cost	52 947 455	557 321 842	86 297 134	1 161 943	2 757 910	28 033 168	5 590 057	2 225 318	3 371 674	739 706 502
Disposals	-	-	-	-	-	-	-	-	-	-
Prior year adjustments	-	185 259	-	-	-	-	-	-	-	185 259
Accumulated depreciation and Impairment:	(1 450 925)	(170 372 000)	(5 810 930)	(925 773)	(1 295 080)	(5 273 223)	(3 872 666)	(1 147 861)	(1 228 751)	(191 377 209)
- Cost	(1 450 925)	(170 301 951)	(5 810 930)	(925 773)	(1 295 080)	(5 273 223)	(3 872 666)	(1 147 861)	(1 228 751)	(191 307 160)
- Correction of error	-	(70 049)	-	-	-	-	-	-	-	(70 049)
- Revaluation	-	-	-	-	-	-	-	-	-	-
Acquisitions	-	132 379 448	4 948 178	-	152 258	3 735 203	2 776 423	912 737	549 006	145 453 254
Transfers	(17 384 525)	-	-	-	-	-	-	-	-	(17 384 525)
Net movement	-	(38 819 223)	-	-	-	-	195 488	19 700	-	(38 604 035)
Depreciation:	(557 391)	(63 641 810)	(6 240 514)	(185 423)	(367 633)	(3 447 810)	(866 055)	(332 052)	(457 942)	(76 096 631)
- based on cost	(557 391)	(63 641 810)	(6 240 514)	(185 423)	(367 633)	(3 447 810)	(866 055)	(332 052)	(457 942)	(76 096 631)
- based on impairment	-	-	-	-	-	-	-	-	-	-
Carrying value of disposals:	-	-	-	-	-	-	-	-	-	-
Cost/revaluation	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	-	-	-
Impairment loss	-	-	-	-	-	-	-	-	-	-
Carrying values at 30 June 2018	50 938 594	439 029 479	80 781 086	50 747	1 247 455	23 046 684	3 561 640	1 581 907	2 233 432	602 471 024
Cost	52 947 454	643 367 939	91 245 312	1 161 943	2 910 168	31 768 371	8 170 992	3 118 855	3 920 125	838 611 159
Transfer to completed	-	-	-	-	-	-	-	-	-	-
Transfer	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation:	(2 008 860)	(204 338 460)	(10 464 226)	(1 111 196)	(1 662 713)	(8 721 687)	(4 609 352)	(1 536 948)	(1 686 693)	(236 140 136)
- Current	(557 391)	(63 641 810)	(6 240 514)	(185 423)	(367 633)	(3 447 810)	(866 055)	(332 052)	(457 942)	(76 096 631)
- Disposal / Adjustments	(70 049)	-	-	-	-	-	129 369	(56 809)	-	2 511
- Opening	(1 451 469)	(140 626 601)	(4 223 712)	(925 773)	(1 295 080)	(5 273 877)	(3 872 666)	(1 148 087)	(1 228 751)	(160 046 016)

NB: Asset Register is available for inspection at the registered address of the Municipality in terms of Section 63 of MFMA

INGOUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 PROPERTY, PLANT AND EQUIPMENT, CONTINUED
As at 30 June 2017

8.1 Reconciliation of Carrying Value

Description	Land and Buildings	Infrastructure	Community Assets	Capitalised Leased assets - Printers	Furniture and Fittings	Plant and Equipment	Motor Vehicles	Computer Equipment	Other Assets	Total
Carrying values at 1 July 2016	R 38 009 149	R 384 582 510	R 41 367 160	R 544 664	R 1 109 837	R 13 430 469	R 2 343 559	R 1 043 351	R 1 972 467	R 501 787 691
Cost	56 402 054	525 209 111	44 708 989	1 161 943	2 103 774	17 006 870	5 590 058	1 861 070	2 885 753	656 929 623
Correction of error	-	-	-	-	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation:	(18 392 905)	(140 626 601)	(3 341 829)	(617 279)	(993 937)	(3 576 401)	(3 246 499)	(817 719)	(913 286)	(155 141 931)
- Cost	(1 008 380)	(140 626 601)	(3 341 829)	(617 279)	(993 937)	(3 576 401)	(3 246 499)	(817 719)	(913 286)	(155 141 931)
- Transfers	(17 384 525)	-	-	-	-	-	-	-	-	-
- Revaluation	-	-	-	-	-	-	-	-	-	-
Acquisitions	11 671 105	43 446 752	41 588 145	-	654 136	11 026 298	-	308 755	485 921	109 181 112
Revaluation	-	(11 334 021)	-	-	-	-	-	-	-	(11 334 021)
Disposals	-	-	-	-	-	-	-	(164 951)	(67 698)	(232 649)
Depreciation:	(441 540)	(30 126 294)	(2 469 101)	(308 494)	(301 143)	(759 981)	(626 167)	(238 797)	(380 602)	(35 652 119)
- based on cost	(441 540)	(30 126 294)	(2 469 101)	(308 494)	(301 143)	(759 981)	(626 167)	(391 936)	(380 602)	(35 805 258)
- disposal	-	-	-	-	-	-	-	153 139	-	153 139
Carrying values at 30 June 2017	51 496 529	387 019 891	80 486 204	236 170	1 462 830	22 759 945	1 717 392	1 077 457	2 142 923	548 399 340
Cost	52 947 454	557 321 842	86 297 134	1 161 943	2 757 910	28 033 168	5 590 058	2 225 318	3 371 674	739 706 502
Prior year correction	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation:	(1 450 925)	(170 301 951)	(5 810 930)	(925 773)	(1 295 080)	(5 273 223)	(3 872 666)	(1 147 861)	(1 228 751)	(191 307 160)
- Cost	(442 545)	(29 675 350)	(2 469 101)	(308 494)	(301 143)	(1 696 822)	(626 167)	(91 135)	(315 465)	(35 926 222)
- Opening balance	(1 008 380)	(140 626 601)	(3 341 829)	(617 279)	(993 937)	(3 576 401)	(3 246 499)	(1 056 726)	(913 286)	(155 380 938)
- Revaluation	-	-	-	-	-	-	-	-	-	-

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

9 LONG SERVICE AWARDS

9.1	Current portion of long service award	2018 R	2017 R
	Short term portion	<u>1 302 694</u>	<u>1 302 694</u>
	NB: The Municipality offers employees long service awards for every five years of service completed, from ten years of service to 45 years of service, inclusive.		
	Current portion of long service awards	1 302 694	1 302 694
	Long service awards	<u>4 924 368</u>	<u>4 617 778</u>
		<u>6 227 062</u>	<u>5 920 472</u>
9.2	Reconciliation of long service award		
	Opening balance	5 920 472	5 517 682
	Total annual expense	(7 430)	773 799
	Actuarial (gain) / loss	314 020	(371 009)
	Unfunded liability	<u>6 227 062</u>	<u>5 920 472</u>
9.3	Assumptions used at the reporting date		
	Discount rates used	8.57%	8.39%
	Number of eligible employees	308	295
	Expected remaining working lifetime	22.0 years	22.0 years
	Average retirement age	65	65
	Salary weighted annual average	7.6%	7.4%
	General salary inflation	6.18	6.21

NB: Qualifications and methodology attached in the file. This valuation is effective from the 01 July 2017 and the next valuation will be done on 30 June 2018.

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

10 INVESTMENT PROPERTY CARRIED AT FAIR VALUE

10.1	Reconciliation of fair value	Investment property R	Total R
	2018		
	as at 1 July 2017	439 816 630	439 816 630
	Fair value adjustments	45 715 070	45 715 070
	as at 30 June 2018	<u>394 101 560</u>	<u>394 101 560</u>
	2017		
	as at 1 July 2016	439 966 630	439 966 630
	Transferred to PPE	(150 000)	(150 000)
	Transferred to inventory		
	as at 30 June 2017	<u>439 816 630</u>	<u>439 816 630</u>
10.2	Investment property pledged as security	-	-
	None and no contractual obligations		
10.3	Details of investment property	2018 R	2017 R
	Land held for an undetermined use	439 816 630	423 880 530
	Land under operating lease	(45 715 070)	16 086 100
	Transfer to community hall	-	(150 000)
		<u>394 101 560</u>	<u>439 816 630</u>
10.4	Details of valuation		
	The effective date of the fair value adjustment was 1 July 2015. Revaluations were performed by an independent valuer, Mr Clyde, of Geospatial. Geospatial is not connected to the Municipality and have recent experience in location and category of the investment property being valued.		
	Methods used are detailed in the attached Valuers methodology		
	The valuation was based on open market value for existing use.		
10.5	Amounts recognised in surplus or deficit for the year.	2018 R	2017 R
	Fair value adjustments	<u>(45 715 070)</u>	<u>-</u>

NB: These are the fair value adjustment figures as determined by the Municipal valuer. These valuations were done on 30 June 2018

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

11 RECEIVABLES

11.1 Consumer receivables from non-exchange transactions

	Gross <u>balance</u>	Provision for <u>bad debts</u>	Net <u>balances</u>
For the year ended 30 June 2018	R	R	R
Business	28 384 898	(27 817 200)	567 698
Domestic	19 401 980	(19 013 940)	388 040
Government	17 926 549	-	17 926 549
Debtor's credit balances			-
	<u>62 457 581</u>	<u>(46 729 536)</u>	<u>15 728 046</u>

		Refuse	Rates
Discounting effect			
Consumer receivables	62 457 581		
Finance income	-		
Unearned finance charges	(928 010)		
Provision for bad debts	(46 729 536)		
Receivables at fair value	<u>14 800 035</u>	1 480 004	13 320 032

As at 30 June 2017

Receivables	59 864 327	(44 772 178)	15 092 149
	59 864 327	(44 772 178)	15 092 149
Un-earned interest 2017			-
Adjusted balance			<u>15 092 149</u>

	2018 R	2017 R
<u>Refuse and Rates: Ageing</u>		
0 - 30 days (current)	(61 920)	15 201
31 - 60 days	74 641	63 456
61 - 90 days	66 284	73 978
91 -120 days	79 611	58 393
121 - 150days	82 439	204 815
151 - 180 days	238 854	91 880
181 - 210 days	78 690	83 431
211 - 360 days	13 172 031	13 405 077
+361 days	51 982 797	45 868 096
Total	<u>62 457 581</u>	<u>59 864 327</u>

Summary of Receivables by Customer Classification

In terms of the financial instruments classification (Note 33), management has classified consumer and sundry receivables as financial assets at amortised cost for the purposes of assessing credit risk (Notes 11.1 and 11.2). The concentration of credit risk has been on business and domestic consumers. Provision for impairment of consumer receivables has been more aggressive in the year under review, and has been made for all residential consumer balances outstanding for 98% of outstanding debt bases on collection. In management's professional judgement, no further credit provision is required in excess of the provision for impairment. Consumer receivables comprises a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these receivables. Consumer receivables are presented net of provision for impairment.

11.2 Sundry receivables from exchange transactions

Refuse		1 319 345
Advance payments	(3 935 267)	597 869
Sundry receivables from exchange transactions	11 401 328	14 738 054
	<u>7 466 061</u>	<u>16 655 269</u>

12 VALUE ADDED TAX

	<u>42 081 844</u>	<u>25 689 786</u>
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INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

	Note	2018 R	2017 R
13 PROPERTY RATES			
<u>Actual</u>			
Rates assessment		21 541 089	22 584 176.00
Finance charges		-	(1 216 193)
Total property rates		21 541 089	21 367 983
<p>Valuations on land and buildings are performed every four years.</p> <p>The last valuation came into effect on 01 July 2015. A factor of 0.02 for government and businesses and 0.015 for residential is applied to property valuations to determine the assessment rates. Rates are levied on an annual basis on property owners. There is an annual maintenance which is done when need arises.</p>			
14 SERVICE CHARGES			
Refuse charges		1 134 823	1 175 866
Finance charges		-	(56 635)
		1 134 823	1 119 231
15 GOVERNMENT GRANTS AND SUBSIDIES			
National Transfers			
Equitable share	15.1	210 127 000	195 945 000
Department of Energy (DOE) - Electrification	15.2	12 009 843	9 807 180
Municipal Systems Improvement Grant	15.3	-	-
Municipal Finance Management Grant	15.4	1 700 000	1 625 000
Municipal Infrastructure Grant	15.5	55 437 000	52 025 000
Expanded Public Works Programme Grant	15.8	1 880 000	1 266 000
Provincial Transfers			
Library services	15.6	774 000	774 000
Local Economic Development Projects	15.7	3 516 401	221 445
Independent Electoral Commission Grant	15.9	-	-
LG SETA	15.10	570 996	379 736
Total government grants and subsidies		286 015 240	262 043 361

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INGOUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

	2018 R	2017 R
15 GOVERNMENT GRANTS AND SUBSIDIES (Continued)		
15.1 Equitable share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. As part of this service, the municipality provides free basic electricity through a formalised mechanism through Eskom.		
	<u>210 127 000</u>	<u>195 945 000</u>
15.2 Department of Energy (DOE) - Electrification		
Balance unspent at the beginning of the year	468 379	3 243 559
Current year receipts	14 500 000	7 032 000
Conditions met - transferred to revenue	(12 009 843)	(9 807 180)
Transferred to liability since creditors have been paid after year end	<u>2 958 536</u>	<u>468 379</u>
This is an electrification support grant. Conditions have been met for conditional grant, however the creditors have been paid after year end. This amount also includes retention which have not yet been released. This expenditure is only for wards electrification		
15.3 Municipal Systems Improvement Grant		
Balance unspent at the beginning of the year	-	-
Current year receipts	-	-
Conditions met - transferred to revenue	-	-
Conditions not met - transferred to liability	<u>-</u>	<u>-</u>
This grant is meant to help with the improvement and upgrading of municipal systems and is only spent on that		
15.4 Municipal Finance Management Grant		
Balance unspent at the beginning of the year	-	-
Current year receipts	1 700 000	1 625 000
Conditions met - transferred to revenue	(1 700 000)	(1 625 000)
Conditions not met - transferred to liability	<u>-</u>	<u>-</u>
This grant is spent on capacity building on BTO officials and S57 managers and Internship		
15.5 Municipal Infrastructure Grant		
Balance unspent at the beginning of the year	-	-
Current year receipts	55 437 000	52 025 000
Conditions met - transferred to revenue	(55 437 000)	(52 025 000)
Conditions not met - transferred to liability	<u>-</u>	<u>-</u>
This is an infrastructure support grant. Conditions yet to be met are that the municipality must still utilise this funding for Capital expenditure purposes, this grant is only spent on road construction and community halls		
15.6 Library Services		
Balance unspent at the beginning of the year	-	-
Current year receipts	774 000	774 000
Conditions met - transferred to revenue	(774 000)	(774 000)
Conditions not met - transferred to liability	<u>-</u>	<u>-</u>
This was spent on libraries and running of the libraries in this period		
15.7 Local Economic Development Projects		
Balance unspent at the beginning of the year	3 179 415	3 400 861
Current year receipts	-	-
Conditions met - transferred to revenue	-	(221 445)
Conditions not met - transferred to liability	<u>3 179 416</u>	<u>3 179 415</u>
Conditions to be met by building hawkker stalls		
15.8 Expanded Public Works Programme Grant		
Balance spent at the beginning of the year	-	-
Current year receipts	1 880 000	1 266 000
Conditions met - transferred to revenue	(1 880 000)	(1 266 000)
Conditions met - transferred to revenue	<u>-</u>	<u>-</u>
The amount recognised as revenue is limited to the funding as per DoRA R 1 649 123 and not the whole expenditure incurred		
15.9 Independent Electoral Commission Grant		
Balance spent at the beginning of the year	-	1 000 000
Current year receipts	-	-
Conditions met - transferred to revenue	-	(1 000 000)
Conditions met - transferred to revenue	<u>-</u>	<u>-</u>
This was spent on August 2016 Local Government Elections		
15.10 LG SETA Subsidy		
Balance spent at the beginning of the year	-	-
Current year receipts	570 996	379 736
Conditions met - transferred to revenue	(570 996)	(379 736)
Conditions met - transferred to revenue	<u>-</u>	<u>-</u>
This was spent for Trainees		

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

16	OTHER INCOME	2018 R	2017 R
	Advertising fees rental	201 250	161 090
	Agency fees	3 376 445	2 969 241
	Building fines	21 659	-
	Commission	-	34 079
	Discount	61 466	-
	Donation	102 747	-
	Funeral fees	26 230	19 331
	Insurance refund	6 600	124 918
	Plan fees	33 556	106 742
	Pound fees	44 651	27 917
	Rezoning and sub-division	19 641	20 623
	Surcharges and taxes	6 526 203	-
	Tender document	186 993	176 413
	Auction income	-	41 838
	Vuna award	600 000	-
		<u>11 207 441</u>	<u>3 682 192</u>

NB: These are all revenues from non exchange transactions that were earned, measured and recognised by the Municipality, none of these revenues are pledged as a security to other party.

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

	2018 R	2017 R
17 TRADE AND OTHER PAYABLES FROM NON EXCHANGE TRANSACTIONS		
Workmen's Compensation Fund	-	-
	<u>-</u>	<u>-</u>
18 EMPLOYEE RELATED COSTS		
Salaries and wages	3 742 944	62 526 463
Contributions for UIF, provident, medical aid, etc	-	14 403 150
Travel, motor car, accommodation, subsistence	59 778 109	3 969 498
Overtime payments	-	5 100 871
Housing benefits and allowances	-	5 366 584
Employee provisions	-	544 268
Total employee related costs	<u>63 521 053</u>	<u>91 910 835</u>
Remuneration of the Municipal Manager		
Annual remuneration	1 081 977	1 126 073
Car allowance	146 604	197 752
Contribution to UIF and other payments	270 406	26 367
	<u>1 498 986</u>	<u>1 350 192</u>
Remuneration of the Chief Finance Officer		
Annual remuneration	793 755	934 100
Car allowance	-	116 715
Contribution to UIF and other payments	-	8 337
	<u>793 755</u>	<u>1 059 152</u>
Remuneration of the Corporate Services Director		
Annual remuneration	805 647	-
Car allowance	-	-
Contribution to UIF and other payments	-	-
	<u>805 647</u>	<u>-</u>
Corporate Services Director resigned and has not been replaced.		
Remuneration of the Technical Services Director		
Annual remuneration	961 894	1 049 069
Car allowance	194 836	150 062
Contribution to UIF and other payments	75 769	58 357
	<u>1 232 498</u>	<u>1 257 488</u>
Remuneration of the Community Services Director		
Annual remuneration	689 100	210 918
Car allowance	212 144	17 010
Contribution to UIF and other payments	97 305	7 802
	<u>998 549</u>	<u>235 729</u>
Remuneration of the Strategic Planning Director		
Annual remuneration	915 336	890 220
Car allowance	-	168 089
Contribution to UIF and other payments	-	89 354
	<u>915 336</u>	<u>1 147 663</u>
Remuneration of the Acting Chief Finance Officer		
Annual remuneration	925 104	867 833.66
Car allowance	164 621	150 717.30
Contribution to UIF and other payments	-	-
	<u>1 089 725</u>	<u>1 018 551</u>

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

	Note	2018 R	2017 R
19 REMUNERATION OF COUNCILLORS			
Mayor			
Annual remuneration		541 485	493 510
Allowances, contribution to UIF and related items		295 228	279 935
		<u>836 712</u>	<u>773 445</u>
Speaker			
Annual remuneration		490 338	420 768
Allowances, contribution to UIF and related items		187 193	161 084
		<u>677 531</u>	<u>581 852</u>
Chief Whip			
Annual remuneration		460 255	402 157
Allowances, contribution to UIF and related items		177 481	155 193
		<u>637 735</u>	<u>557 350</u>
Exco members			
Annual remuneration		3 762 215	3 001 956
Allowances, contribution to UIF and related items		1 583 935	1 247 207
		<u>5 346 150</u>	<u>4 249 163</u>
Other Councillors			
Annual remuneration		9 328 099	8 657 810
Allowances, contribution to UIF and related items		4 339 210	3 740 719
		<u>13 667 308</u>	<u>12 398 529</u>
Traditional leaders		434 500.00	424 065
Total remuneration for councillors	36	<u>21 599 936</u>	<u>18 984 403</u>
<div style="border: 1px solid black; padding: 5px;"> <p>NB: full list of related party transactions as per GRAP standard is disclosed on Note 36. The remuneration of councillors and political office-bearers are within the upper limits of the framework envisaged in section 219 of the Constitution.</p> </div>			
20 INTEREST PAID			
Long term liabilities - DBSA	37	468 056	319 943
Finance lease	39	-	67 969
Total interest on external borrowings		<u>468 056</u>	<u>387 912</u>
21 REVALUATION AND FAIR VALUE SURPLUS			
Fair value adjustment on investment	10.1	-	-
Revaluation on land	8.2	-	-
		<u>-</u>	<u>-</u>
22 COUNCILLORS WITH ACCOUNTS IN ARREARS			
1. JP Mdingi		3 232	-
2. S Ndarane		3 826	-
TOTAL		<u>7 058</u>	<u>-</u>

NB: These are the Councillors with accounts in arrears for more than 90 days.

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

23	GENERAL EXPENDITURE	2018 R	2017 R
	Accounting and audit fees	5 902 224	6 174 823
	Advertising fees	486 482	714 246
	Allowance ward admin	5 760 631	3 866 530
	Arts and culture	83 970	74 200
	Auction expense	-	-
	Audit committee costs	314 288	366 436
	Bank charges	85 911	84 049
	Beach management	-	-
	Buildings	-	-
	Catering- meetings	42 305	304 395
	Cleaning and greening	54 985	48 335
	Cleaning material	251 764	140 124
	Communication strategy	165 347	301 078
	Community halls	-	18 020
	Computer hardware	-	160 732
	Consultation & professional fees	27 243	141 977
	Corporative development	56 864	1 000 000
	Council functions	2 678 319	5 026 862
	Crime prevention	-	172 850
	Data lines	20 231	22 105
	Disaster management	1 419 152	466 446
	Early childhood development	104 611	92 850
	Electricity and water purchase	2 110 610	720 182
	Electricity infrastructure	-	8 930 316
	Employee assistance programme	63 571	107 060
	Environmental management	688 005	18 700
	Equitable share	3 453 398	4 110 075
	Expanded Public Works Programme	1 826 682	2 673 279
	Experiential trainees	137 700	237 531
	Farmer's production	-	607 489
	Finance management grant expenditure - Capacity building	1 059 314	1 319 341
	Flagstaff paving	-	-
	Furniture	152 258	-
	Garden services	534 432	-
	Hall Hire refund	-	794
	Hawker stalls		2 016 106
	Health services	102 219	79 413
	HIV & Aids	100 229	-
	Hotel accomodation	1 558 220	615 540
	IDP development	1 381 126	613 951
	Insurance: external	1 664 781	1 133 848
	Inter-governmental relations	32 412	-
	Internal audit	661 580	731 194
	Labour relations	-	6 792
	Land summit	-	20 530
	Landfil sites	62 127	11 390
	Legal fees	4 515 329	2 764 197
	Library services	68 333	76 105
	Licence fees	137 930	171 743
	Local economic development	2 504 812	5 040 421
	Munsoft and payday	3 067 072	1 156 303
	Parks, pound and cemeteries	-	50 080
	Plant unit	645 275	(258 327)

Postage	900	719
Printing and stationery	661 648	544 975
Property valuation	183 880	359 117
Protective clothing	107 167	1 014 790
Public participation	1 013 164	458 226
Re-allocation costs	31 321	18 041
Recruitment	185 515	112 360
Refuse bags	366 962	853 424
Registering authority	185 650	222 380
Rent- office equipment	304 774	221 577
Road construction	-	1 484 825
SMME Capacity	12 125	3 600
SMME production	-	184 565
Spatial development	506 873	209 542
Special programmes	604 818	2 911 612
Spluma awareness	50 537	148 469
Sport and recreation	18 000	15 050
Subsistence and travelling	1 313 416	1 351 957
Support to traditional leaders	57 097	99 807
Survey and planning	-	137 521
Team buiding	279 618	377 267
Telephone	4 380 612	3 601 972
Tourism	453 600	852 934
Towing services	10 530	44 800
Traffic law enforcement	4 613	67 251
Training	1 495 450	1 271 225
Training- accomodation	903 673	989 330
Vehicle hire	715 252	2 121 905
Vehicle testing centre	-	198 886
Vehicle- fuel & oil	1 919 377	1 840 234
Vodacom	-	25 534
Waste management	-	-
Whippery expense	29 795	65 448
	<u>59 778 109</u>	<u>73 939 452</u>

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

		2018 R	2017 R
24	CASH AND CASH EQUIVALENTS		
	Cash and cash equivalents included in the cash flow statement comprise the following statement of amounts indicating financial position:		
	Bank balances and cash	7.3 79 871 173	51 559 046
	Petrol card	4 -	-
	Total cash and cash equivalents	79 871 173	51 559 046

NB: The Municipality did not have any overdraft or any accounts that were overdrawn as at 30 June 2018. Only the petrol card and is disclosed under payables in note 4.

25 **DEVIATION FROM SUPPLY CHAIN MANAGEMENT REGULATIONS**

Regulation 36 of the MFMA on Supply Chain Management (SCM) Regulations and clause 36 of the SCM Policy of 2012 states that a SCM Policy must provide for the procurement of goods and services by way of a competitive bidding process.

Regulation 36 states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and report them to the next meeting of the Council and includes a note to the audited separate annual financial statements.

During the financial year under review goods/services totalling (R4 052 018 (2017: R863 861) were procured and the process followed in procuring those goods/services deviated from the provisions of the regulations as stated above. The accounting officer approved the deviations from the normal SCM regulations.

Nature of deviation	No of Contracts		
Emergency	5	4 052 018	863 861
		4 052 018	863 861

NB: The deviations were for court cases as well as Electricity faults

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

	2018 R	2017 R
UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFULL		
25 EXPENDITURE (Continued)		
25.2 Fruitless and wasteful expenditure		
Reconciliation of fruitless and wasteful expenditure:		
Fruitless and wasteful expenditure current year	190 139	-
Condoned or written off by Council	-	-
Transfer to receivables for recovery	-	-
Fruitless and wasteful expenditure awaiting condonement	<u>190 139</u>	<u>-</u>

NB: The management has considered all the expenditure that has been incurred during the year and the management believes that there were no instances or transactions that maybe classified as fruitless and wasteful expenditure

26 INVENTORY

Stationery and land held for sale

Inventory	18 891 464	23 088 938
Closing balance	<u>18 891 464</u>	<u>23 088 938</u>
Land held for sale	23 088 938	15 068 112
Movements	(4 197 474)	8 020 826
Closing balance	<u>18 891 464</u>	<u>23 088 938</u>
Opening balance - stationery	-	388 227
Phurchases during the year	-	429 646
Consumed during the year	-	(817 873)
Closing balance	<u>-</u>	<u>-</u>

NB: The Municipality's inventory consists of consumables, stationery and land held for sale

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

		2018 R	2017 R
27	ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT		
27.1	Audit fees		
	Current year audit fee	3 827 509	3 610 119
	Amount paid - current year	(3 827 509)	(3 610 119)
	Balance unpaid (included in payables)	-	-
27.2	PAYE, UIF & SDL		
	Current year taxes	16 979 883	16 979 883
	Amount paid - current year	(16 979 883)	(16 979 883)
	Balance unpaid (included in payables)	-	-
27.3	Medical aid		
	Current year taxes	9 633 553	8 325 180
	Amount paid - current year	(9 633 553)	(8 325 180)
	Balance unpaid (included in payables)	-	-
27.4	Provident and pension funds		
	Current year taxes	2 817 664	9 915 035
	Amount paid - current year	(2 817 664)	(9 915 035)
	Balance unpaid (included in payables)	-	-
28	CONTINGENT LIABILITIES		
	<u>Sub Note</u>	<u>Amount claimed</u>	<u>Amount claimed</u>
	Litigations that are still pending (a)	1 343 632	2 007 049
	All cases against the Municipality (b)	6 747 000	6 404 006
		<u>8 090 632</u>	<u>8 411 055</u>

(a) These are employees with cases that are still pending and / or under arbitration process from which the outcome may favour any of the two parties involved. These employees are still on suspension pending their cases.

(b) Cases against the Municipality, by the people that are suing the Municipality for issues relating to land invasion

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

	2018 R	2017 R
29 CASH GENERATED BY OPERATIONS		
Un-adjusted surplus for the year	40 670 705	18 274 614.00
Adjustment for:		
-Depreciation	41 784 674	36 068 306
-Impairments	61 644	10 212 857
-Interest earned	-	(7 952 902)
-Gain on fair value adjustment	45 715 070	-
-Interest paid	-	387 912
Surplus per Statement of Financial Performance	128 232 092	56 990 787
Correction of errors	(8 851 393)	427 518
Current year movement	-	-
Inventories	1 959 024	(7 632 599)
Consumer receivables from exchange transactions	(3 271 727)	(4 244 077)
Sundry receivables from exchange transactions	-	(2 699 420)
Provisions	62 127	2 001 291
Trade and other payables from exchange transactions	4 910 671	-
Trade and other payables from non exchange transactions	-	(2 759 379)
Long service awards		402 790
VAT receivables	(16 392 058)	(18 356 227)
Unspent conditional grants and receipts	2 490 156	(2 996 626)
Cash generated by operations	109 138 892	21 134 058

30 ASSUMPTIONS

30.1 Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the Municipality to continue as a going concern is dependant on a number of factors.

1. Liquidity - in terms of section 214 of the Constitution of Republic of South Africa (Act 108 of 1996) the parliament is instructed to provide for an Act (Division of Revenue Act) that will enable the National Government to raise and collect revenue from all sources and distribute it equitable to both Provincial and Local Government (Municipalities). Allocation for 2016/17 is R 195 945 000 and R 210 127 000 for 2017/18
2. Debtors collection - to fully comply with the credit control and debt collection policy the Municipality procured the services of the skilled debt collector to collect the outstanding debts from business and residents. The Municipality is embarking on a revenue enhancement programme.
3. Statutory payments - The Municipality has settled all the major debts that were long outstanding including AGSA and SARS. The most significant of these is that the Accounting Officer continues to procure funding for the on-going operations of the Municipality. However the Municipality is positively recovering from severe financial constraints. This is evident by the fact that none of the Municipality's creditors has been outstanding for a period over than 30 days, and the fact that there has been no overdraft in the current financial year. The sitting of Council meetings has improved in the current year, the Council meetings that took place were more than four to discuss strategic documents.

30.2 Events after reporting date

Full details of all known events, if any, after the reporting date will be disclose.

31 REPAIRS AND MAINTENANCE	2018 R	2017 R
Repairs and maintenance - Property, plant and equipment	3 759 920	17 225 960
Repairs and maintenance - Computer installation	48 124	456 321
	3 808 044	17 682 281

NB: Repairs and maintenance programme started very late last year due to other delays that couldn't be avoided by the Municipality. These repairs are mainly gravel road repairs and a little bit of buildings, vehicles and computers - they are all not enhancing the capacity of the respective assets and as such are expensed.

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2018

			2017	2016
			R	R
32	CORRECTION OF PRIOR PERIOD ERROR			
32.1	Correction of errors	Sub-notes Period		
	The following restatements have been effected to prior period account balances and classes of transactions due to prior year errors/ommissions which have been identified			
	Prior year correction Trade payables from exchange transactions - Creditors	2016/17	(6 050 556)	(6 410 931)
	Creditors	a)	(57 358)	690 810
	Creditors	a)	-	(330 435)
	Restated balance		<u>(6 107 914)</u>	<u>(6 050 556)</u>
	Trade payables from exchange transactions - Accruals	2016/17	-	(2 820 260)
	Accruals	b)	-	693 884
	Accruals	e)	-	537 470
	Accruals		-	391 952
	Restated balance		<u>-</u>	<u>(1 196 954)</u>
	Property, plant and equipment - Firearms	2016/17	-	25 231
	Firearms	c)	-	77 674
	Restated balance		<u>-</u>	<u>102 905</u>
	Property, plant and equipment - WIP	2016/17	-	89 027 259
	Wetland - WIP	d)	-	112 373
	Electrification - WIP	f)	-	540 330
	Other income		-	(3 114 534)
	Other income		-	3 299 793
	Restated balance		<u>-</u>	<u>89 865 221</u>
	Sundry receivables from exchange transactions	2016/17	-	12 915 390
	Debtors	l)	-	(2 236 500)
	Debtors	g)	-	(50 040)
	Restated balance		<u>-</u>	<u>10 628 850</u>
	Revenue from exchange transaction			
	Other income	2016/17	(11 509 246)	(11 509 246)
	Income received in advanced	h)	(2 561 330)	3 114 534
	Access road		-	3 879 324
	Restated balance		<u>(14 070 576)</u>	<u>(4 515 388)</u>
	Property, plant and equipment - Access road	2016/17	470 186 847	434 952 647
	Other income - plant	c)	185 259	(3 879 324)
	Other income - plant		-	3 213 328
	Restated balance		<u>470 372 106</u>	<u>434 286 651</u>
	Total expenditure	2016/17	-	213 417 646
	Plant expense		-	(4 657 356)
	Employee cost		-	(1 171 754)
	Depreciation		-	(684 011)
	Restated balance		<u>-</u>	<u>206 904 526</u>
	Long term liabilities	2016/17	6 825 840	-
	Interest	i)	114 871	-
	Restated balance		<u>6 940 711</u>	<u>-</u>
	Property, plant and equipment - Access road - Accumulated Dep	2016/17	(140 271 647)	-
	Other income - plant	c)	70 049	-
	Other income - plant		-	-
	Restated balance		<u>(140 201 598)</u>	<u>-</u>
			<u>(2 248 509)</u>	<u>427 518</u>

32.2 Effect of change and details of the changes

- Creditors not raised in the prior year
- Creditors accruals and cancelled and they were never paid
- Depreciation of the completed project
- Wetland project expenditure not on WIP
- Incorrectly raised in accruals
- Electrification expenditure raised in accruals but not on Wip
- Electrification expenditure raised in accruals but not on Wip
- Income from sale of site recorded as income received in advanced
- Interest on DBSA loan not recognised in the prior year
- Electrification - Retention
- Professional fees - Access road
- Sundry receivable from exchange transactions - Sale of sites

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

33 FINANCIAL INSTRUMENTS

33.1 Financial assets

30 June 2018	Consumer receivables	Sundry receivables	Investment held as collateral	cash and cash equivalents	Total
	R	R	R	R	R
Opening balance	12 747 725	16 752 337	5 988 893	51 559 046	87 048 001
Net gains or losses recognised directly in net assets					-
Interest income	-	-	485 579	-	485 579
Impairments					-
Net other movements	572 307	(7 863 904)	-	28 312 126	21 020 529
Closing balance	13 320 032	8 888 433	6 474 472	79 871 173	108 554 110

Maximum credit exposure

Interest income includes:

Interest on financial assets that are not at fair value through surplus or deficit	-
Subsequent interest on impaired financial assets	-

30 June 2017	Consumer receivables	Sundry receivables	Investment held as collateral	cash and cash equivalents	Total
	R	R	R	R	R
Opening balance	7 630 025	11 669 308	5 539 732	73 153 721	97 992 786
Net gains or losses recognised directly in net assets					-
Interest income	-	-	449 161	-	449 161
Impairments					-
Net other movements	5 117 700	5 083 029	-	(21 594 675)	(11 393 946)
Closing balance	12 747 725	16 752 337	5 988 893	51 559 046	87 048 001

Interest income include:

Interest on financial assets that are carried at amortised cost	-	-
Subsequent interest on impaired financial assets	-	-

Disclosed in the Statement of Financial Performance

Fee income

	2018 R	2017 R
On financial assets/liabilities carried at amortised cost	-	-
Trust and/or other fiduciary activities	-	-
Other fee income	-	-

Disclosed in the Statement of Financial Position

	2018 R	2017 R
Consumer receivables from non-exchange transactions	13 320 032	12 747 725
Sundry receivables from exchange transactions	8 888 433	16 752 337
Investment held as a collateral	6 474 472	5 988 893
Cash and cash equivalents	79 871 173	51 559 046

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

33.2 Financial liabilities

	Finance lease at Cost	Financial instruments at cost	Financial instruments at cost	Financial liabilities at cost	Total
30 June 2018	R	R	R	R	R
Opening balance	195 319	3 647 794	25 671 044	6 825 841	36 339 998
Interest expense	-	-	-	114 998	114 998
Net other movements	(195 319)	2 490 157	4 815 035	-	7 109 872
Closing balance	0.00-	6 137 950	30 486 079	6 940 838	43 564 868

Interest expense include:

Interest on financial liabilities that are not at fair value through surplus or deficit -

	Finance lease at Cost	Financial instruments at cost	Financial instruments at cost	Financial liabilities at cost	Total
30 June 2017	R	R	R	R	R
Opening balance	486 871	6 644 420	28 265 817	7 055 581	42 452 689
Interest expense	-	-	-	-	-
Net other movements	(291 552)	(2 996 626)	(2 594 773)	(229 740)	(6 112 691)
Closing balance	195 319	3 647 794	25 671 044	6 825 841	36 339 998

Interest expense includes: Interest on financial liabilities that are carried at amortised cost

	2018 R	2017 R
Disclosed in the Statement of Financial Performance		
Fee expenses	468 056	319 943
On financial assets/liabilities carried at amortised cost	-	-
Trust and/or other fiduciary activities	-	-
Other fee expenses	468 056	319 943
Disclosed in the Statement of Financial Position		
Categories of financial liabilities		
	R	R
Unspent conditional grants and receipts	6 137 950	3 647 794
Finance lease liability	0.00-	195 320
Trade and other payables from exchange transactions	30 486 079	25 671 044
Long term loan - DBSA	6 825 840	6 825 840
	<u>43 449 869</u>	<u>36 339 998</u>

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

33.3 Qualitative disclosure

Key assumptions

Credit risk

Ingquza Hill Local Municipality has a very serious credit risk exposure because of the debtors that are not paying for rates, taxes and services. The Municipality has since engaged the use of a Debt Collector to collect monies owed by the debtors and the Council has also resolved to write off the opening balances of the debtors. For ageing refer to Note 11
The maximum exposure to credit risk is the 100% of the carrying amounts of the financial assets as indicated above even for the consumer receivables where the maximum exposure is estimated to be at 100% of the carrying amount of the debtors.

Liquidity risk

Ingquza Hill Local Municipality does not foresee any threat with regards to servicing of its debts utilising assets that can be quickly converted into cash and cash equivalents because the Municipality is committing guaranteed income when budgeting to avoid the use of external loans and overdrafts to finance its operations.
Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the Municipality's financial liabilities into relevant maturity groupings based on the remaining period at the Statement of Financial Position as at 30 June 2018 to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

2018	Not later than one month R	Later than one month and not later than three months R
Loan - DBSA	-	231 003
Finance lease liability	-	102 470
exchange transactions	6 074 438	-
Sundry payables	114 998	-
2017	Not later than one month R	Later than one month and not later than three months R
Loan - DBSA	-	231 003
Finance lease liability	-	102 470
exchange transactions	-	-
Sundry payables	3 559 508	-
	-	-

Market risk

Interest rate risk

Not applicable to the Municipality, The loan with DBSA has a fixed interest rate of 6.75% per annum payable 6 monthly twice a year. Maturity is detailed in Note 2.

Foreign currency risk

Not applicable to the Municipality because the Municipality does not deal with foreign currency, and only banks with the approved financial institutions in the country.

Price risk

Not applicable to the Municipality.

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

34 RELATED PARTY TRANSACTIONS

34.1 Interest of related parties

Councillors and/or managers of the Municipality that have relationships with businesses as indicated below:

Name	Designation	Description of Related Party Relationship
None	None	None

34.2 Services rendered to related parties

The Municipality did not render any services during the year to anyone that can be considered as a related party.

34.3 Loans granted to related parties

In terms of the Municipal Finance Management Act, the municipality may not grant loans to its Councillors, management, staff and public with effect from 1 July 2004. No loans have been granted to anyone that can be considered as a related party.

34.4 Purchases from related parties

The Municipality did not buy goods from any companies which can be considered to be related parties.

34.5 Remuneration

NB: Please refer to Notes 19 and 36 for Councillors remunerations and Note 18 for the remuneration of management

34.6 Audit committee fees		2018	2017
		R	R
PM Mancotywa	Chairperson	70 324	61 495
VM Songelwa	Member	19 500	19 500
NB Kekana	Member	13 000	13 000
EBD Makhosi	Member	58 500	72 244
		<u>161 324</u>	<u>166 239</u>

This is an independent advisory body which advises the Ingquza Hill Local Municipality Council, the political Office Bearers, the Accounting Officer and the Management on matters relating to performance and financial management. This body is appointed in terms of s166(4)a of the Municipal Finance Management Act Number 56 of 2003.

INGQUZA HILL LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2018

35 PROVISION FOR IMPAIRMENT

Reconciliation of the provision

2018
R

2017
R

Consumer debtor account

62 457 581

59 864 327

Provision balance @ 98%

46 729 535

44 772 178

Opening balance

44 772 178

39 224 603

Current increase

1 957 357

5 547 575

Discounted debtors account

15 728 046

15 092 149

CALCULATIONS @ 98%

Business

27 834 790

27 387 559

Domestic

18 894 745

17 384 619

TOTAL

46 729 535

44 772 178

Debtors

15 728 046

15 092 149

Provision

(1 957 357)

(5 547 575)

Traffic fines impaired

1 957 357

(33 250)

Total impairment

0

(5 580 825)

36 RELATED PARTY LISTING

EMPLOYEE NAME	2018 R	2017 R
MDINGI JP	836 713	773 445
CAPA YN	677 531	581 852
TENYANE M	637 736	557 350
ZIPHATHE MR	373 818	299 120
GWEGWE V	373 818	328 480
JOTILE T	373 818	327 209
GOYA BB	637 735	356 925
SOMANI V	373 818	327 209
MVULANI B	373 818	334 629
MKUMLA CM	373 818	327 209
GAGAI NA	373 818	335 730
VATSHA SB	373 818	335 730
GXABHU T	-	38 426
MTSHAZO SH	625 742	339 632
MHLONGO Z	364 042	290 638
NKANI BJ	364 042	290 969
DUTSHWA P	364 042	355 680
MJOJELI NE	-	38 426
BESI TT	-	38 426
MAXHAYI M	-	38 426
KANGO PS	-	38 426
MTSOTSO NF	-	37 410
JIKI N	-	37 410
NGXAMILE PN	292 677	260 420
NTSHOBO P	-	37 410
MJOKOVANA D	292 677	301 229
JOYI B	-	29 989
JIBA Z	292 677	260 420
QWESHA M	292 677	260 420
MGWILI NH	292 677	260 420
MNGQINELWA NCB	292 677	260 420
NDZUMO T	292 677	260 420
THIMLE L	292 677	260 420
NKAYITSHANA N	-	29 989
MALULWANA SE	-	-
TAMBODALA ZJM	-	29 989
ZATHI N	-	29 989
DANISO N	292 677	260 420
THWATSHUKA D	292 677	260 420
DALIWE NA	-	29 989
NKUNGU MI	292 677	260 420
SIKHOSANA MN	-	29 989
MAGAYA FA	-	29 989
RULENI S	-	29 989
MKIZWANE AM	-	29 989
MFAISE VD	-	29 989
IL SOQASHI	-	-
KEWANA D	-	29 989
MVIKO K	-	29 989
GOGO M	-	29 989
MOTHUSI ZH	-	29 989
YAKO N	-	29 989
MHLAKUVANA N	292 677	260 420
NKANI N	292 677	260 420
NONKUBA N	292 677	260 420
GXUMISA-CINGO FJ	-	29 989
CWECWE N	292 677	260 420
NOTYESI N	292 677	260 420
NKWAKHWA S	-	29 989
SIGCAU NE	-	29 989
SIBUNGE T	292 677	260 420
DUMISA T	292 677	260 420
DINGI X	-	29 989
MHLANGA ZE	-	29 989
CELE KD	292 677	260 420
WF RANAI	292 677	232 331
N MATANDABUZO	292 677	232 331
TP MGUDU	292 677	232 331
B SIVELA	292 677	232 331
MV PHANDELA	292 677	232 331
Z JABAVU	292 677	232 331
S N MAPOLOBA	292 677	232 331
NP NQETHO	292 677	232 331
B NTUNGO	292 677	232 331
LI NDZIBA	292 677	232 331
S NDARANE	292 677	232 331
ST HLONGWANE	292 677	232 331
ZP BAMBUSIBA	292 677	232 970
MP DLELANGA	292 677	232 019
N MZOTHWA	292 677	232 331
N MBANGATHA	292 677	232 331
ONA NOMCHANE	292 677	232 331
SN MABASA	292 677	232 331
NP JAMJAM	292 677	232 331
MC DIDIZA	292 677	232 331
F NOMGCA	292 677	232 331
Z NONCOKWANA	292 677	232 331
MA GULENI	292 677	232 331
B MABHEDUMANA	292 677	232 331
N GANDELA	292 677	232 331
M NONGCICI	292 677	232 331
G MBIKO	292 677	232 331
K VAVA	21 772	-
TRADITIONAL LEADERS	434 500	424 065
	21 599 936	18 984 403

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

37 SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2018

EXTERNAL LOANS	Loan Number	Redeemable	Balance at 01/07/2017	Paid during the year	Interest for the year	Balance at 30/06/2018	Carrying Value of Property, Plant and Equipment	Other costs in accordance with the MFMA
			R	R	R	R	R	R
Loan - Development Bank of Southern Africa(DBSA)			6 825 139	(317 242)	468 056	6 975 953	23 046 684	-
			6 825 139	(317 242)	468 056	6 975 953	23 046 684	-

NB: This is a financial liability

38 UNAUTHORISED EXPENDITURE

Actual expenditure in excess of approved budget votes

2018
R

2017
R

Opening balance

-

-

Non cash items

-

-

Condoned by council

-

-

Total deviations made in the current year

-

-

Incident

This is the actual expenditure for certain budget votes exceeded the approved adjustments budget due to non-cash flow items, included in the actual expenditure which could not reasonably have been budgeted for.

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

39 LEASES

39.1 Finance lease liability

30 June 2018	Minimum lease payment R	Future finance charges R	Present value of minimum lease payments R
Amounts payable under finance leases			
Within one year	-	-	-
Within two to five years	-	-	-
Less: Amount due for settlement within 12 months (current portion)			-
			-

The average lease term is 3 years and the average effective borrowing rate is 18%. Interest rates are fixed at the contract date. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.

30 June 2017	Minimum lease payment R	Future finance charges R	Present value of minimum lease payments R
Amounts payable under finance leases			
Within one year	195 320	-	195 320
Within two to five years	-	-	-
Less: Amount due for settlement within 12 months (current portion)			(195 320)
			-

The average lease term is 3 years and the average effective borrowing rate is 18%. Interest rates are fixed at the contract date. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

39 LEASES (CONTINUED)
39.2 Operating lease

30 June 2018	Minimum lease receipts R	Future finance charges R	Present value of minimum lease receipts R
Amounts receivable under operating leases			
Within one year	-		-
Within two to five years		-	-
	-	-	-
Less: Amount due for settlement within 12 months (current portion)			-
			-

These are the lease contracts given to people at a fixed monthly instalments, one of the contracts will expire in 2026. Details per each lease are attached in

30 June 2017	Minimum lease receipts R	Future finance charges R	Present value of minimum lease receipts R
Amounts receivable under operating leases			
Within one year	195 320		195 320
Within two to five years		-	-
	195 320	-	195 320
Less: Amount due for settlement within 12 months (current portion)			(195 320)
			-

These are the lease contracts given to people at a fixed monthly instalments

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

40 WORK IN PROGRESS

	2018	2017
	R	R
Access Roads	34 776 634	18 395 327
Electrification	29 165 003	21 628 629
Municipal Offices	51 825 955	28 151 286
Community Halls	12 613 565	7 857 852
Street Lights	72 963	72 963
Landfill sites	1 970 274	319 298
Facelifts (Town)	3 109 680	1 439 847
High Mast Lights	559 751	
	<u>134 093 825</u>	<u>77 865 202</u>

RECONCILIATION

Opening Balances	77 865 202	89 027 259
Adjustments	512 000	652 722
Restated Opening Balance	78 377 202	89 679 981
Less: Completed Projects transferred FAR	(33 294 527)	(87 323 253)
Less: Completed Projects transferred to Expenditure	(5 524 696)	(8 930 316)
Plus: Additional Expenditure	94 535 844	84 438 790
Closing Balance	<u>134 093 823</u>	<u>77 865 202</u>

These are the capital projects that are being constructed by the Municipality utilising a mix of grants and own revenue, all these projects are in the IDP of the Municipality and the progress, delays and stopages per each project is reported in the APR which is a document submitted together with these financial statements.

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

41 IMPAIRMENT

IMPAIRMENT OF PROPERTY PLANT AND EQUIPEMENT

	2018 R	2017 R
Furniture and fittings	1 700	-
Tools, arms & mobile office	598	-
Computer equipment	59 346	2 580
Sale of Sites	-	4 629 452
	<u>61 644</u>	<u>4 632 032</u>

These assets were impaired during the year because of their bad conditions which are beyond repairable and some were stolen or lost

42 LOSS ON DISPOSAL OF ASSETS

	2018 R	2017 R
Pinting Machine	-	-
Safes	-	-
Furniture and fittings	-	-
Plant and equipment	-	-
Motor vehicles	-	-
Tools, arms & mobile office	-	-
Computer equipment	-	-
	<u>-</u>	<u>-</u>

No items of property plant and equipment were disposed-off this year in terms of MFMA no. 56 of 2003

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

43 INTERESTS EARNED

43.1 INTEREST EARNED ON OUTSTANDING DEBTORS

	2018 R	2017 R
Discounting of debtors	(245 500)	1 027 328
Unearned interest movement	870 421	870 421
	<u>624 921</u>	<u>1 897 748</u>

43.2 INTEREST EARNED ON EXTERNAL INVESTMENTS

	2018 R	2017 R
FNB - 6224175712 - primary account	698 362	975 583
FNB - 62003235307 - call account	1 116 964	564 954
FNB - 62219877836 - call account	7 076	7 416
FNB - 74233699310 - call account	1 520 661	1 493 956
FNB - 62231474537 - call account	604 569	440 962
FNB - 62231473761 - call account	3 382 304	4 020 870
RMB account	497 530	449 161
	<u>7 827 466</u>	<u>7 952 902</u>

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2018

44 CAPITAL COMMITMENTS

Commitments in respect of assets still under construction

Approved and contracted for	2018 R	2017 R
Infrastructure	9 399 259	29 122 977
Community	-	9 253 062
Offices	3 390 766	20 646 498
Plant	-	3 145 203
Computer equipment	1 032 358	527 014
Office Furniture	-	93 791
Bins	747 194	331 562
Truck	-	590 000
Surfacing (Newtown)	21 820 035	-
Landfill sites	1 538 498	-
Wetlands	915 093	-
Sportsfields	1 133 160	-
	<u>39 976 363</u>	<u>63 710 107</u>

These assets will be funded from

Grants and subsidies	9 399 259	59 022 537
Own revenue	30 577 104	4 687 570

NB: these commitments represent the remainder of the contracts signed by the Municipality for the development of some projects that took longer than expected to complete as a result at year end they were still pending.

The completed portions of these project are reported as work in progress